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On the Loans raised by Mr. Pitt during the First French War, 1793-1801; with some statements in defence of the Methods of Funding employed. By WILLIAM NEWMARCH, one of the Honorary Secretaries of the Statistical Society.

[Read before the Statistical Society, on Monday, the 19th of February, 1855.]

IN discussing this subject, I shall consider in succession the following topics:—

- I.—GENERAL IMPRESSIONS entertained of MR. PITT's Policy as regards the LOANS raised from 1793 to 1801.
- II.—Specific allegations against MR. PITT, and some suggested Answers.
- III.—The OUTBREAK of the WAR, 1st February, 1793.—The Political Events which immediately led to it.
- IV.—COMMERCIAL EMBARRASMENTS, and SCARCITY, in the early part of 1793.
- V.—THE FIRST LOAN of the War of 4,500,000*l.* in March, 1793.—Its History and its Terms.
- VI.—Statement of the SEVEN FURTHER LOANS, which it is proposed to examine in detail.—The 11,000,000*l.* of February, 1794.—The Floating Debt of Navy Bills.
- VII.—The 18,000,000*l.* of 1st February, 1795.—The condemnation by MR. Fox of the ADVANCES made to the EMPEROR.
- VIII.—The 18,000,000*l.* of December, 1796.—The Committee of Inquiry with reference to it.
- IX.—THE LARGE FUNDING of Navy and Exchequer Bills in November, 1796.—Failure of the attempt to accomplish the operation in the 4 and 5 Per Cents.
- X.—Gloomy state of affairs 1796-97.—LOYALTY LOAN of 18,000,000*l.* in December, 1796.—Its History, Terms, and the Loss entailed by it on the Subscribers.—Loan of April, 1797.
- XI.—GENERAL CONCLUSIONS, justified by the foregoing DETAILS.—Those Conclusions are in Favour of MR. PITT.
- XII.—THE DIFFICULTIES which prevented LARGE TAXATION, 1793-1798.—Rapid succession of BAD HARVESTS, but great efforts made.
- XIII.—Great Influence produced by false Calculations of the weakness of the ENEMY, and by false reliance on the SINKING FUND.—Testimony of MR. BURKE and LORD GRENVILLE.
- XIV.—Statement of the QUESTION as regards the COMPARATIVE ELIGIBILITY of contracting Loans in LOW RATE and HIGH RATE Funds.
- XV.—The strong PRACTICAL CONSIDERATIONS in favour of preferring CONSOLS or a Low Rate Fund.
- XVI.—THE COMPARATIVE RESULTS of the TWO METHODS as applied to the Ten Largest Loans, 1793-1801.
- XVII.—The Same as regards the LOAN of 8,000,000*l.* of March, 1847.
- XVIII.—MR. PITT's Doctrines relative to RAISING WAR SUPPLIES within the YEAR.

I.—*General Impressions entertained of Mr. Pitt's policy as regards the Loans raised from 1793 to 1801.*

Among those persons who by taste or occupation are led to interest themselves in questions relating to the General Finance of the country, and especially in questions relating to the Funding System and the National Debt, I believe it would be difficult to find many who are not prepared to express very strong censure of the financial policy of Mr. Pitt, during the first French War of 1793—1802, as that policy was displayed in the contraction of Loans.

The intemperate accusations of a period of violent contest between political parties, holding scarcely an opinion in common, have, as regards Mr. Pitt's measures of finance, survived to subsequent generations; and it is not altogether to our credit that we should continue to repeat the abstract censures originated by the enemies of Mr. Pitt, and neglect almost wholly to make ourselves familiar with the real nature of those extreme practical difficulties which were certainly considered by the public who supported Mr. Pitt as a complete vindication of the financial expedients he found himself compelled to employ.

War was declared against England and Holland by the National Convention on the 1st February, 1793: and the definitive treaty of Peace was signed at Amiens on the 25th March, 1802. On the first of these dates the funded capital of the Debt was 238—on the second 574 Millions Sterling; during nine years of war therefore the funded capital of the Debt was increased by 336 Millions. Mr. Pitt ceased to be Premier a year before the Peace, or on the 17th of March, 1801; but in reality his was the mind which devised the system, in accordance with which these 336 Millions were added to the Debt.

Now for this amount of debt inscribed the actual sum received in money was about 223 Millions; or, in general terms, only two-thirds of the capital created; and hence arises the censure and the accusation. I pass over all that part of the controversy which relates to the policy and the management of the War, and therefore over all those questions which relate to the plan of opposing the enemy by subsidies of money to Continental Allies, and I confine myself to the censures and the accusations which have been, and are, directed against the manner in which this great debt was contracted.

II.—*Specific allegations against Mr. Pitt, and some suggested Answers.*

It is said, then, that there were two capital faults, viz., ignorance of some of the simplest rules of finance;—and gross extravagance in the manner in which the Loans were brought into the market.

It is laid down as a fundamental rule, obligatory on all finance ministers in this country,—and as especially binding on Mr. Pitt,—that all Loans shall be raised at the market rate of interest at the time;—that the amount of capital funded shall in no way exceed the capital actually raised in money;—and that consequently it is the duty of the Minister practically to disregard any considerations of difficulty to the Exchequer, arising from the proposal of novel terms in a straitened money market, or of excessive pressure to a community already suffering from inordinate burdens and extreme dangers.

It is alleged that Mr. Pitt systematically violated these canons of finance, and violated them without any sufficient necessity, and certainly, it is said, without any compensating advantage. In point of fact there have been, and I dare say there are, persons who believe that the whole of the 103 millions of debt—which represent the difference between the money received and the capital created—was a loss to the country of the grossest and most gratuitous kind; a loss wholly unrelieved by any trace of justification or deduction.

The real gravity of the charge, however, is found in those quarters where, with great force and ingenuity of reasoning, it is urged—that

it was the duty of Mr. Pitt to have raised the loans of the First French War in strict accordance with the principle of paying a rate of interest for each loan equal to the market value of money at the time; and, adopting such a course, to have enabled the country, on the return of peace, to have materially reduced the annual rate of interest, and therefore the annual charge of the debt. And further, that it was not less his plain policy than his distinct duty to have raised a very much larger portion of the Supplies within the year; and in that manner, especially during the earlier years of the War, to have avoided those onerous loans which have descended to ourselves unredeemed and perhaps but little susceptible of redemption.

In referring to the party which holds these views I would be understood to do so with great respect. It includes names of the greatest eminence; and if I venture to call in question their opinions on the subject now under discussion, I do so for the specific reason that, as far as I can judge, those opinions have been formed on abstract grounds, and not after a careful examination of the particular facts and circumstances which marked the whole of the period from 1793 to 1801, and placed Mr. Pitt in situations of financial difficulty, which were wholly new, and happily since then have had no parallel.

I am sanguine enough to suppose that such a careful examination as I have just mentioned will show in a very decisive manner—(1.) That it would have been practically impossible to have raised most of Mr. Pitt's loans in the amounts, and at the times required, if the principle of borrowing at par had been enforced: (2.) That even if the money had been raised in Five per cent., instead of mainly in Three per cent. Stock, the difficulties would have been frequently excessive, and in every case the rate of interest, and therefore the annual charge, very considerably higher: (3.) That when the facts are properly examined there is no adequate justification for imputing extravagance to the Minister, as regards the manner in which the loans were raised; nor for believing that in the contracts actually entered into, the country did not obtain the full benefit of whatever *bond fide* competition could be excited among persons qualified by wealth and character to afford proper security for a punctual fulfilment of their engagements: (4.) That in the anxious and difficult situation of this country during most of the years of the Revolutionary War it was a consideration so pressing as to become a necessity of the first order, not to increase, even by the smallest avoidable amount, the pressure of the existing taxes: and (5.) That as a general result it was not possible, with a due regard to the exigencies of the time—especially during the six years 1793-98, both inclusive—to raise within the year by means of old and new taxes a larger revenue than was actually obtained.

III.—*The Outbreak of the War 1st February, 1793.—The Political Events which immediately led to it.*

We can hardly commence an examination of the financial measures of the War without first referring to some of the principal circumstances affecting this country at the time of its outbreak in the second month of 1793.

The message from the King to Parliament which, on the 28th of January, 1793, accompanied a copy of the correspondence between Lord Grenville, the Foreign Secretary, and M. Chauvelin (the personage who had communicated with the British Government on the part of France since the dethronement of Louis XVI., in the August previously) described the hostile steps then adopted as "measures necessary for opposing views of aggrandizement and "ambition on the part of France, which would be at all times dangerous to the general interests of Europe, but are peculiarly so "when connected with the promulgation of principles which lead to "the violation of the most sacred duties, and are utterly subversive "of the peace and order of all civilized society;" and it would be difficult perhaps to describe in language more free from ambiguity the real origin of the War which was then entered upon by Great Britain. It was a War which could be no longer avoided, if this country was to exert any influence in restraining the power of France within its former limits; and in any degree repress that violent democratic fanaticism which led the revolutionary party to enter upon a career of foreign propagandism, subversive, as the Message said, of the peace and order of all civilized society.

This country and Holland were the last of the leading powers of Europe to take up arms against France; and if it had not been for the atrocious measures which had marked the conduct of the Jacobin party, during the nine or ten months immediately preceding the outbreak of the War, it may be considered certain that there would have been no departure from the scrupulous neutrality which Great Britain had observed since the Assembly of the States General in May, 1789.

It is too much the habit to forget that the character and aspect of the Revolution became seriously changed for the worse after the dissolution of the Constituent Assembly on the 29th of September, 1791; and when, in consequence of the fatal decree which disqualified the members of that body from being again elected, the supreme power passed into the hands of the obscure and penniless adventurers who composed the great majority of the second chamber which arose out of the Revolution, and which, under the name of the Legislative Assembly, commenced its sittings on the 1st October, 1791. This representative body continued in existence for a few weeks short of a year (to the 20th September, 1792), or until the meeting of that third chamber which, under the name of the National Convention, has left behind it one of the most terrible histories which has come down to us in an authentic form.

But if the crisis reached its culminating point under the Convention, we must in justice not forget that the seeds of nearly all the subsequent crimes and mischiefs were sown during the eleven months from October, 1791, to September, 1792, and in this interval, the Legislative Assembly held in its hands the fate of France and the peace of Europe. Mignet is not an historian likely to bear testimony against the popular cause of the Revolution; but even he confesses that "*l'œuvre de l'Assemblée Constituante périclita moins par ses défauts que par les coups des factions. Placée entre l'aristocratie et la multitude, elle fut attaquée par l'une et*

envahie par l'autre." It was under the Legislative Assembly that the Feuillant Ministry was turned out (March, 1792); and the Girondist Ministry, which took its place, led or compelled by the riot of the 20th June (1792), the massacre of the Swiss Guard of the 10th August and the still more terrible massacre in the prisons of the 2nd September—to commit itself to those ultimate measures for the destruction of royalty, and the delegation of absolute power to the mob of Paris, which, in the course of a very short time, introduced anarchy and violence into every department of the State.

The first measure of the National Convention was an unanimous vote (20th September, 1792) for the abolition of royalty,—the establishment of a republic,—and the declaration that that year was the "Year I. of the French Republic." Louis and his family were already in prison, and the great spectacle of the autumn of 1792 was the debates which preceded the arraignment of the King, and which intervened between the trial and the execution. That execution took place on the 21st of January, 1793, and it was this event which, so far as this country was concerned, suddenly converted a previous neutrality into a state of declared war.

I say *suddenly* converted; for there is abundant evidence to prove that so firmly persuaded were all classes of the determination of Mr. Pitt to preserve peace as long as possible, that in no branch of trade was there the least appearance of doubt or suspense on the ground of apprehended war, till within a few weeks of the actual outbreak; and until it became obvious that with an incendiary government, like that which had possessed itself of power in France, it would be impossible for this country to remain on friendly or even neutral terms. Even so late as the 20th December, 1792, five weeks only before the outbreak of the War, the vote taken for the Sea and Land forces for the year 1793 was for only 20,000 seamen and 5000 marines for the Navy, at a cost of 1,300,000*l.*;—and for 17,344 men for the Army, at a cost of 579,174*l.* When war had been declared, the addition made (11th of February, 1793) to the Navy was 20,000 men (1,040,000*l.*), and to the Army 9,945 men (437,837*l.*); additions which subsequent experience bitterly taught us were far too small.

There can be no reasonable question but that our calculations on continued peace had led to such a reduction of establishments that when hostilities had to be commenced in 1793 we were, in the most emphatic sense, unprepared to carry them on with vigour; and if further evidence had been required on this point, it has been recently furnished by the publication of the correspondence and papers of General Sir Harry Calvert,* who, as aide-de-camp to the Duke of York, in the campaigns of 1793 and 1794-5, is a perfectly competent witness.

IV.—*Commercial Embarrassment, and Scarcity, in the early part of 1793.*

The War commenced under circumstances of great internal embarrassment in this country.

* "Journals and Correspondence of General Sir Harry Calvert, Bart." Edited by his son, Sir Harry Verney, Bart.—(Hurst and Blackett) 1853.

The Harvest of 1792 was the third of the dark series of seasons of deficient produce which marked the fourteen years from 1789 to 1802 (both inclusive). The harvests of 1789 and 1790 had been defective, but that of 1792 was seriously unfavourable. At the end of September (1792) the price of wheat had risen to 53s. 4d. (from 40s. 11d.), and on the 9th of November following exportation was prohibited, and importation was allowed at a low duty.

But there was aggravated Mercantile Discredit as well as Scarcity. "Immediately preceding the declaration of war," says Mr. Tooke (Hist. i., page 176), "there was a great revulsion and derangement of commercial credit, not only in this country but in the principal trading cities of the continent of Europe." Of that discredit the War was in no sense the origin. It arose out of a train of causes of a special nature and of long continuance. The failures began in November, 1792,—“When,” says MacPherson, “there were no fewer than 105; and there were very few months in all the years preceding 1792 wherein the *Gazette*, that doleful register of commercial mis-carriage, had exhibited above the half of that number.” (*Annals*, iv., 254). The War did not of course tend to relieve embarrassments already so chronic. “The unprecedented number of bankruptcies in November,” I again quote MacPherson, as a contemporary of the period, “was prodigiously exceeded by the number and amount of those which took place in the spring and summer of this year (1793), viz. :

105 in March, 1793	158 in June, 1793
209 „ May „	108 „ July „
188 „ April „	

“Many houses of the most extensive dealings and most established credit failed, and their fall involved vast numbers of their correspondents and connexions in all parts of the country. In the general distress and dismay every one looked on his neighbour with caution, if not suspicion. It was impossible to raise any money upon the security of machinery and shares in canals, for the value of such property seemed to be annihilated in the gloomy apprehensions of the sinking state of the country, its commerce, and manufactures; and those who had any money, not knowing where they could place it with safety, kept it unemployed and locked it up in their coffers.”

There is abundant collateral testimony that this dismal picture is not overcharged. To the failures of the merchants and manufacturers was added the still more disastrous failure of numerous Country Banks.*

In April (1793) the distress became so severe that it was necessary for the Government to apply extraordinary measures of relief; and at a meeting of merchants at the Mansion House on the 23rd (April), it was agreed to apply to Mr. Pitt to advance Exchequer Bills on the security of goods, and merchandize, and other property. Parliament was accordingly applied to, and on the 29th (April),

* The total number of Bankruptcies was as follows :—

1791	769	of which 1 was a Country Bank.
1792	934	„ 1 „ „
1793	1,956	„ 26 were Country Banks.

Exchequer Bills to the extent of 5,000,000*l.* were ordered to be applied as advances;* and it is exceedingly discreditable to the Opposition that they attempted to convert even this obvious and imperative measure of interference, into a ground of charge against the Minister and into a source of party triumph. Mr. Fox thought it worth while to contend seriously that the proposal to make temporary advances to merchants on ample security, and at a high rate of interest, was even in the midst of such a crisis, a violation of the Constitution, and a suspicious means of placing undue power in the hands of the Executive. The measure, however, was perfectly successful, and in point of fact, the moral effect produced by the assurance that assistance could be obtained prevented in most cases, any assistance being applied for.

V.—*The First Loan of the War of 4,500,000*l.* in March, 1793.—Its History and its Terms.*

We are now in a condition to trace the history of the First Loan raised by Mr. Pitt on the opening of the war.

The amount of that Loan was 4,500,000*l.*, and it was raised in 3 per cent. Consols, at the rate of 72*l.* money for every 100*l.* Stock, or according to the more convenient mode of quoting the terms of such transactions—138*l.* 16*s.* Stock for every 100*l.* Money, and the rate of interest therefore to the lender was 4*l.* 3*s.* 4*d.* per cent. per annum. The bargain for the Loan was concluded between the 11th and 17th of March, 1793.

It is important to have before us a statement of the quantity of Funded Debt standing under the different denominations of Stock, on the 5th of January, 1793, or at the time when this loan was contracted, and such a statement will be found in the following figures:—

*Amount of the Funded Debt of Great Britain as it stood on 5th January, 1793.
(Compiled from Dr. Hamilton, p. 319.)*

	Funds.	Stock.	Stock.
3 per cent. Consols		£107,400,000	
3 „ Reduced		41,540,000	£
		<hr/>	148,940,000
3 per cent. South Sea Stock and Annuities			24,065,000
3 „ Annuities, 1751			1,919,000
3 „ Annuities, 1726			1,000,000
Bank of England.....			11,686,000
			<hr/>
			187,610,000
4 per cent. Consols			32,750,000
5 „ Navy.....			17,869,000
			<hr/>
			238,229,000

The total annual charge for annuities of various kinds, existing on 5th January, 1793, was 1,293,000*l.*; and of this sum, as far as can be ascertained, 680,000*l.* were “Long Annuity,” expiring 5th January, 1860. The remaining 613,000*l.* were annuities for lives and short terms. At, say, 20 years’ purchase, the 680,000*l.* per annum Long Annuities would represent a capital of 13,600,000*l.*

It is very material to observe upon this statement, that the two great descriptions of Stock, the 3 per cent. Consols and the 3 per cent. Reduced amounted to more than 60 per cent. of the total of

the funded debt; and that the 4 and 5 Per Cents. were of comparatively small amount.

The First Loan of 4,500,000*l.* now in question has been very severely criticised, as being at a single leap, a gross departure from sound principles. It is said that the Loan ought to have been negotiated by open or individual subscription; and ought to have been raised in either 4 or 5 per cent. stock. Now what are the facts?

On the 11th of March, 1793, Mr. Pitt laid the Budget before the House in a speech full of detail, and after showing that the deficiency in the Ways and Means was 4,500,000*l.* he added, that he proposed to raise that sum by "*individual* loans, but the particular terms of such loans he had not specified, nor even his desire of entering into them " at all till the accounts were fairly before the House, and every one " apprized of the state of the revenue of the country." He then read a figured statement, in which he estimated that the money could be obtained at the rate of 75 per cent. Mr. Pitt's speech concluded with an appeal for the support of the House under the trying circumstances of the country; and this gave Mr. Sheridan an opportunity for saying "that the speech contained little novelty in it, except the " novelty of introducing, on a day devoted to figures, all the arts of " declamation. The right honourable gentleman had suddenly laid " down his pencil and slate, as it were, and grasping his truncheon, " had finished with an harangue, more calculated for the general of " an army going to storm a French redoubt than a minister of finance " discussing accounts in the sober hour of calculation with the " stewards and attorneys of a burdened and patient people."

On the 17th March, 1793, Mr. Pitt stated to the House the terms of the loan (already given above), and he said that he had desired to raise the money in 4 and 5 per cents., but had found it impracticable to do so. He admitted that the actual terms were more onerous than he had expected, but he had had no choice, for he had received tenders from only one set of persons. After a few general objections from Mr. Fox, the subject dropped.

We find the same statement in substance in the very useful work by Mr. Grellier,* who says, "It was originally intended to have raised " this loan in 4 or 5 per cent. stock, but the embarrassed state of " commercial credit having caused a scarcity of money, the Minister " only received offers from one set of subscribers; and as they preferred 3 per cents., it was judged expedient to conclude the bargain " in that stock, at the price of 72, although that price was between " 4 and 5 per cent. under the current price;" and Mr. Grellier adds "that Mr. Pitt admitted that the terms were much more disadvantageous to the public than might have been expected, *but having " done every thing in his power to excite a competition but without " effect, the terms were the best he could procure."*

Now if we remember that this Loan was required about five weeks after the declaration of War had come suddenly upon the nation, and in the midst of that commercial distress, which, we have seen, com-

* "Terms of all the Public Loans, by J. J. Grellier, with an Appendix, by R. W. Wade.—Third Edition, 1812." Mr. Grellier was Cashier of the Royal Exchange Assurance; and, as he died in 1809, he was a contemporary of the earlier loans of the war.

pelled the Government to interfere specially in the very next month, (April), we may discern some reasons why persons having the command of capital should not be willing to lend it to the Government except on terms which left them a large margin for meeting unfavourable contingencies.

But further, we have the statement of MacPherson, that "when the war was declared the funds immediately felt the shock, and the 3 per cents. fell almost instantly from $79\frac{1}{2}$ to $70\frac{1}{2}$." This was a fall of $9\frac{1}{2}$ per cent., and indicated a degree of instability which no prudent contractor could attempt to face, unless fortified by very favourable terms. And favourable as the terms were, the Scrip of the loan bore no higher a price on its appearance than $1\frac{1}{2}$ —2 premium; and while that price was never exceeded, so long as the Scrip was in the market, the quotation fell at one time to a small fraction above par. Such a statement of the market value of the Scrip is of itself strong evidence that even at the rate of 72, the contractors for the loan were barely reimbursed for the risk attending the operation.

We may apply, however, another test.—It may be assumed that about the time of the contract, the market prices of the several kinds of Stock were as follows, and at those prices yielded the rates of annual interest stated, viz.:—

March, 1793.	3 per Cent. Consols.	4 per Cents.	5 per Cents.	Long Annuity.
Market prices	£ 77	£ 89	£ 104	Years' Purch. $21\frac{1}{4}$
Yielding per cent. per annum.....}	3 18	4 9 3	4 16 2	4 10
Equated Prices	77	102	128	....

Here we have a most striking depreciation of market value of the 4 and 5 Per Cents. as compared with Consols; a depreciation of (102-89), 13 per cent. as regards the 4 Per Cents., and of (128-104) 24 per cent. as regard the 5 Per Cents. And it does not require much financial skill to understand, that if the Minister had persisted in raising the loan in 5 Per Cents., he would have had to pay for the money, not 4*l.* 3*s.* 4*d.* per cent., but (as I have estimated for purposes of calculation to be presently referred to), at the very least, 5*l.* 2*s.* per cent., or 18*s.* 4*d.* per cent. more.

What are we to say then to the accusations of having needlessly resorted to a close clique of contractors, and of having extravagantly selected the 3 Per Cents. as the Stock in which to seek for tenders? There is no foundation in fact for these censures; on the contrary, Mr. Pitt did every thing in his power to excite a public competition, and to obtain the money in a high rate stock. He did not succeed, and for the sufficient reason that the difficulties of the money market were too great, and the perils and uncertainties of the time too perplexing to render it possible for the British Government even when acting through a minister so popular and powerful as Mr. Pitt, to

obtain the command of a few millions, except upon terms which did not involve any novelty and which left a very considerable margin to the subscribers. And we shall find as we proceed that it was substantially the same sufficient reason which year after year left the Government no choice but to obtain the necessary loans not in the form which they would most like, but in that particular manner, which the exigencies of the time rendered most attractive to those who had capital to spare.

VI.—*Statement of the Seven further Loans, which it is proposed to examine in detail.—The 11,000,000*l.* of February, 1794.—The Floating Debt of Navy Bills.*

It will be seen from the Tables A. B. C. in the Appendix, that between March, 1793, and February, 1801, there were Eighteen Loans, or operations of Funding of Navy and Exchequer Bills, operations in their nature equivalent to loans.

To examine each of these eighteen cases in the detail just applied to the 4,500,000*l.* raised in the second month of the War, would be quite incompatible with the limits of this Paper; and moreover, it would lead to a monotonous repetition of statements, not different in substance from those which have been already given with reference to the loan of March, 1793.

It will be the most convenient course, therefore, and it will fully answer my present purpose to confine my observations in detail to the circumstances connected with seven further cases, viz:—

Date.	Money Raised.	At Average rate per Cent.	Stocks.
	£	£ s. d.	
1794 (5th Feb.)	11,000,000	4 11 5	Loan in 3's, 4's, and Long Annuity.
1795 (23rd Feb.).....	18,000,000	4 16 2	Ditto.
„ (May).....	4,600,000	7 10 .	The <i>Imperial</i> Loan in 3's and Annuity for 25 years.
„ (7th Dec.)	18,000,000	4 13 6	Loan in 3's and Long Annuity.
1796 (Nov.)	13,029,000	5 7 11	Navy and Exchequer Bills funded.
„ (1st Dec.)	18,000,000	5 12 6	<i>Loyalty</i> Loan in 5's and under special conditions.
1797 (26th April)	14,500,000	6 7 .	Loan in 3's, 4's, and Long Annuity.

The Budget for the year 1794, was laid before the House in a speech of considerable length on the 5th February.

Mr. Pitt stated the deficiency in the Ways and Means, to be raised by loan, as 11,000,000*l.*; and proceeded to say, that he had thought it a prudent course to arrange conditionally for the loan. He said, “in negotiating the loan he had endeavoured to encourage “a free and open competition among monied men, without having “anything to do with the distribution of it; taking care only that “the biddings should be of such responsibility as to insure pay-

"ment of the first deposit, which might be considered as the security to the public for the rest. Five most respectable sets of monied men had offered, and the overtures were such as might have been expected. The terms were highly favourable to the public; and what was also desirable, he hoped safe to the lenders. For every 100*l.* money, they were to receive 100*l.* stock, 3 per cent. Consols; 25*l.* stock 4 per cents. and 11*s.* 5*d.* Long Annuity. At the current prices of the day, these were worth 99*l.* 19*s.* 9*d.* This, perhaps, was the first instance of a loan in which the fractional difference between the sum borrowed and the sum to be paid, was in favour of the public; and in which the discount on prompt payment was the only premium to the lender. The discount on 90*l.* viz: the sum remaining to be paid after the first deposit for eleven months, at 3 per cent. was 2*l.* 9*s.* 6*d.*, which added to 99*l.* 19*s.* 9*d.* made 102*l.* 9*s.* 3*d.* for every 100*l.* of the loan. This was no doubt a considerable premium, but the smallest he believed that had ever been given." To this very clear statement, it is hardly necessary to append any comment. It was listened to by the Opposition in silence, a circumstance which would not have happened if there had been any possibility of raising a question.

It must not escape notice, however, that the whole of that portion of the funded capital which was in excess of the quantity of 3 per cent. stock, (11,000,000*l.*) taken as the basis of the operations, was in 4 per cents. and in Long Annuity; and if we refer to the relative prices of the 5 per cents. we shall find abundant practical reasons why a funding in that stock was not attempted. At the time of the negotiations, the market prices were—

February, 1794.	3 per Cents.	4 per Cents.	5 per Cents.	Long Annuity.
	£	£	£	Years' Purch.
Actual Prices	67	84	101	20
Yielding per cent. } per annum.....}	4 9 6	4 15 3	4 19	4 15
Equated Prices	67	90	113	....

We find in the depreciation of the 5 Per Cents. given by these figures, a tolerably plain reason why they were excluded from the plan. The Scrip of this loan, however, was not very lucrative to the subscribers, for it came out at only $1\frac{1}{2}$ -2 premium, and fell very shortly to a very small fraction above par.

In the course of the Budget Speech, from which I have already quoted, there is a passage with reference to the kind of Floating Debt, called Navy Bills; that is, Bills issued by the authorities acting under the Admiralty, in payment of stores and provisions required for the Fleet, and which during the American War, and (in spite of Mr. Pitt's efforts) also during the last War, were a fertile source of embarrassment to the Exchequer.

Mr. Pitt said, in the speech of the 5th February, 1794, "In the course of the last year (1793) the Navy Debt had increased

"3,200,000*l.* This he did not mean to leave, as in former times, "accumulating till the end of the War. He meant to make immediate provision for the interest of the whole sum; to fix a period "for the payment of Navy Bills in ready money within fifteen "months after their being issued; and instead of allowing no interest "till six months after the date of the bills, (which had been the "former practice) to allow 4 per cent. interest from the time of "issuing. This he was informed by persons well-qualified to judge, "would put an end to the discount on Navy Bills, which had always "in time of War been so disadvantageous to the public."

These were great reforms, and great steps in the path of sound economy; but notwithstanding, the advantages offered by this description of security, such was the high rate of interest borne by money during the years from 1793-1801, that Navy Bills were constantly at a considerable discount.

VII.—*The 18,000,000*l.* of 1st February, 1795.—The condemnation, by Mr. Fox, of the advances made to the Emperor.*

With the year 1795 began the period of greatest difficulty experienced during the whole course of the struggle from 1793 to 1815, in obtaining the loans necessary for the service of the year.

The 4½ millions in March, 1793, was obtained at 4*l.* 3*s.* 4*d.* per cent.; the 11 millions in February, 1794, at 4*l.* 11*s.* 5*d.*, per cent.; but the 18 millions required in February, 1795, was only obtained at 4*l.* 16*s.* 2*d.*, per cent; and if we include the rate of 7*l.* 10*s.*, per cent., paid for the 4½ millions raised in April and May, 1794, for the Emperor of Austria, under the guarantee of Great Britain (and which, in point of fact, became four years later (1798), a charge on the Consolidated Fund), the average rate of interest paid for the 18 millions was considerably more than 4*l.* 16*s.* 2*d.*; for the terms of that Loan and of the Imperial Loan were in a measure made to support each other.

The Budget for 1795 was introduced on the 23rd of February, and the terms of the loan of Eighteen Millions were then stated, viz., 100*l.* stock, 3 per cent. Consols, 33*l.* 6*s.* 8*d.* stock, 4 Per Cents.; and 8*s.* 6*d.* Long Annuity for 65¼ years, or till 1st January, 1860, for every 100*l.* money, with certain concessions to the subscribers of being entitled to specified proportions of the Imperial Loan.

The Table B in the Appendix will show the relative prices of the different kinds of stocks at the time of the negotiation.

About three weeks previous (5th February, 1795) to the introduction of the Budget, a Message from the King had been sent to the House of Commons, asking for the guarantee of Great Britain to a Loan of 4,600,000*l.*, to be raised in London, on behalf of the Emperor of Austria; and out of that message, and the policy it involved, there arose several important and animated debates.

On Mr. Pitt's motion for an Address, in accordance with the Message, Mr. Fox moved a strong amendment, and the division was 173 to 58. Very few persons would now undertake to defend Mr. Pitt's plan of largely subsidizing foreigners, and it is no part of my present object to go into that question. It must be remembered, however, that there were special difficulties of treaty and otherwise

pressing upon Mr. Pitt, of which we have no accurate means of estimating the proper force.

Mr. Fox was never more formidable than when he argued against the expenditure of English money in remittances to foreigners, of whose good faith and efficiency we had no sufficient evidence; and his speech of the 5th of February (1795), against the Imperial Loan was one of his most striking efforts. He said, "With respect to the general policy of employing foreign troops in this war, he could not help arguing from experience that little reliance was to be placed upon them. The right honourable gentleman (Mr. Pitt) knew how much of the money of this country had been already squandered for such aid; and everybody knew what had been the conduct of our Allies. It had been confessed that there were points in the conduct of Austria difficult to explain. He believed it not only difficult but impossible to explain these points in any satisfactory manner. It was no wonder that the right honourable gentleman declined entering into a detail of conduct which involved everything that was suspicious. [Mr. Fox then referred to instances]. In the latter part of the campaign it was said that the Austrians acted better. Possibly they might, for then they began to be paid for their trouble; but was it not notorious that the Duke of York was left, at only thirty miles distance, to judge of their intentions by speculations, as he might have done of the intentions of an enemy.—He might be asked, if we did not send these subsidies what should we do? He would answer—Add the money to our naval strength, and depend upon our own exertions, instead of depending on treacherous allies."

The Scrip of the 18 million loan of February, 1795, came out at $1\frac{1}{2}$ -2 premium. In the course of the summer it reached 11 premium, in consequence of a favourable turn in the campaign.

VIII.—*The 18,000,000*l.* of December, 1795.—The Committee of Inquiry with reference to it.*

The Budget for 1796 was introduced on the 7th December, 1795, and it was part of the Ways and Means to raise a second loan of 18 millions.

The terms were 120*l.* stock, 3 per cent. Consols; 25*l.* stock, 3 per cent. Reduced; and 6*s.* 6*d.* Long Annuity; equal on the whole to a rate of interest to the lender of 4*l.* 13*s.* 6*d.* per cent. per annum.

The contract for this loan excited considerable discussion. On the 8th of December (1795), the day after the Budget, a Royal Message was sent to both Houses, intimating his Majesty's disposition to meet any overtures for peace on the part of France, and that announcement, coupled with favourable news from the seat of war, led to a considerable rise in the funds, and in the scrip of the new loan. Mr. Grellier says: "The terms of this loan excited considerable discussion; and it appeared, on an investigation of the business, that it might have been negotiated at 3*s.* Long Annuity per cent. less; but the Minister thought himself under some obligation to accede to the proposal of the subscribers to the last loan. The terms were settled on the 25th November, 1795." At the conclusion of the Budget speech (of the 7th of December) Mr. Pitt

referred at considerable length to the special circumstances which had led him to accord a preference to Mr. Boyd and his party as the contractors for the loan of the preceding February. A petition had been presented to the House by Mr. Morgan and his friends, the party who conceived that they had cause of complaint against the nature of the dealing with Mr. Boyd. The petition alleged, among other things, that the Minister had departed from the plan of open competition. Mr. Pitt's answer was "that the plan of making the "biddings an open competition was the plan which of all others he "was most anxious to adopt in this as in all former loans. It "appeared, however, that no real competition could take place until "those who were engaged in the former loan had paid up the "money; and it also appeared that it was not usual for any application to be made for payment of a new loan till the former had "been completed." After entering into further details Mr. Pitt concluded by saying that "he was sensible that by his conduct in "this affair he had exposed himself to much misconstruction. He "could only take refuge in his own intentions, and rely with confidence on the candour, the fairness, and the justice of the House."

The topic, however, was taken up with great vigour by the Opposition, and on the 15th December, (1795) Mr. William Smith moved for a Committee to "Enquire into the circumstances of the Negotiation of the late Loan." Mr. Pitt seconded the motion, and thanked Mr. Smith for bringing it forward, stipulating that the Committee should be a Select Committee, and not a Committee of the whole House. On the 9th February (1796), Mr. Smith presented the Report of the Committee, with a great mass of evidence; and proposed to the House as an individual member, forty resolutions of great length, in which were discussed in detail the minute points upon which the whole case of the complainants rested. These resolutions were of course hostile to the Government; but the first of the series is important, as proving that even in the opinion of Mr. Pitt's most decided opponents, the policy up to that time pursued in the negotiation of loans, was not considered to be censurable. The words are "That it appears to this House that the principle of making Loans for the public service by free and open competition, uniformly professed by the Chancellor of the Exchequer, has been very generally recognized as affording the fairest prospect of public advantage." Mr. Smith's resolutions were debated at great length on the 26th February, and negatived by 171 to 23. Many curious details might be gathered from the debate; but I must pass them by, and content myself by observing that the protracted discussions to which the negotiation of the loan in question gave rise, prove very clearly that whatever might have been Mr. Pitt's inclination to extravagance he was not in a position to gratify such an inclination with impunity, in the face of an opposition so watchful and courageous as the party led by Mr. Fox.

IX.—*The Large Funding of Navy and Exchequer Bills in November, 1796.—Failure of the attempt to accomplish the operation in the 5 per cents.*

In November, 1796, a Funding of Navy and Exchequer Bills was

undertaken on a scale more extensive than any preceding operations of the kind. And it appears to have been determined to make this Funding a fair test of the degree of support which the public would give to any attempt to raise money in a high-rate stock. The Bills to be funded were divided into four series, according to certain peculiarities of date, but the average amounts of Stock placed at the *option* of the holders, for each 100*l.* of Bills funded were as follows:—

November, 1796.	3 per Cents.	4 per Cents.	5 per Cents.
	£	£	£
Options Offered	176 stock	138 stock	118 stock
Yielding per cent. } per annum	5 5 0	5 10 0	5 18 0

And as far as can be ascertained the market prices at the time of the operation were as follows:—

November, 1796.	3 per Cents.	4 per Cents.	5 per Cents.
	£	£	£
Market Prices	56	72	86
Yielding per cent. } per annum	5 7 0	5 11 1	5 16 3

Compared with the actual market prices, therefore, the rates yielded by the option in the 3 and 4 per cents. were unfavourable—but in the 5 per cents favourable.

It will be observed also, that a Bonus of 5*s.* per cent. was offered to those who took the 4 in preference to 3 per cents. And of no less than 13*s.* per cent. to those who took 5 per cents. in preference to 3's. With the advantage even of these Bonuses, what were the results? The answer is as follows:—

The total amount of Bills funded was 13,029,399*l.*; and the stock selected by the holders under the options was—

In 3 Per Cents.	£18,438,000	stock	=	85	per cent.
4 " 	870,000	"	=	4	"
5 " 	2,305,000	"	=	11	"
	<u>21,613,000</u>			<u>100</u>	

These figures are exceedingly striking, and seem to prove—by the comparatively trifling amounts taken in 4 and 5 per cents. under circumstances highly favourable to the disposal of funds of that character,—the practical repugnance of the public to deal in descriptions of Stock not in the highest degree marketable at all times, and to any extent.

X.—*Gloomy state of affairs 1796-97.—Loyalty Loan of 18,000,000*l.* in December, 1796.—Its History, Terms, and the Loss entailed by it on the Subscribers. Loan of April, 1797.*

I have now to notice the loan of 18 millions, of December 1796, known as the LOYALTY LOAN.

This loan was obtained under circumstances so peculiar and full of interest, as to raise its subscription from the rank of a mere financial incident, into an event which exercised no small influence on the progress of the War.

At the close of 1796, this country was fast approaching that darkest hour of the struggle the deepest shade of which was reached in the early part of 1797. I will quote the description given in the Annual Register of the state of the country in the last two months of 1796 and the early part of 1797, as the testimony not only of an able and impartial, but of a contemporary authority. The passage runs thus: "While either the imprudence of our councils, or the "adversity of events, involved a necessity of heavy and even severe "taxation, other discouraging circumstances accompanied or followed "this evil in close succession. Difficulty crowded on difficulty, "danger on danger. On the return of Lord Malmesbury towards "the close of 1796, from the unsuccessful negotiation at Paris, the "British funds suffered a greater depression than was experienced "at any period of the American War. Insurrections prevailed in "many parts of Ireland, discontents in all. An unexampled run on "the Bank of England was followed by a suspension of payments in "specie. A mutiny of unprecedented extent and inveteracy raged "in the Navy; symptoms of discontent began to appear in the "Army; the public dissatisfaction and alarm were expressed in petitions from all quarters for a change of measures if not of ministers; "and the wild and darkening forest threatened to close around us."

The Session of 1796-97 began as early as the 27th September, 1796, and after the formalities attendant on the opening of a New Parliament had been gone through, the Royal Speech (6 October) adverted, among other topics, to the threat of invasion from France.

On the 18th October, the ministry proposed as a measure of internal defence, a levy, under stringent regulations, of 15,000 men from the different parishes of the country; a supplemental corps of militia of 60,000 men; and a corps of 20,000 irregular cavalry; and it was in the midst of the excitement and discussions following on these proposals, that the annual Budget was presented on the 7th December, 1796.

The deficiency of Ways and Means was stated to be 18 millions, and for that amount Mr. Pitt had made provision by a loan brought before the public in a manner and with a result both extraordinary.

Mr. Pitt appears to have judged, after protracted consultation with the Bank Directors, that to attempt to raise so large a sum as 18 millions, in the then perilous condition of the country, by the agency of ordinary contractors would be an operation of exceeding cost and very doubtful success. It was determined, therefore, to throw the subscription open to the public, and to appeal to the patriotism of the country for support, and it was also determined to raise the money

in Five Per Cent. Stock; and a 5 per cent. stock being selected, it becomes for our present purpose an interesting question, what were the terms offered as likely to be accepted? Those terms were sufficiently onerous to the public. For every 100*l.* money the lenders had 112*l.* 10*s.* stock 5 per cents., dating from the previous quarter-day 10 October, 1796; these 5 per cents. were declared to be irredeemable, unless with the consent of the proprietors, until the expiration of three years after all the 5 per cent. stocks, existing at the date of this loan, should be redeemed or paid off;—with an option, moreover, to the proprietors of the stock of this loan to be paid off at par within two years after the conclusion of a definitive treaty of peace, and in either case of repayment of this loan, the holders to have the right of claiming the repayment either in 100*l.* money, or in 133*l.* 6*s.* 8*d.* 3 per cent. Consols for every 100*l.* stock cancelled.

Even with these stringent safeguards to the lenders against future contingencies, it is quite certain that the loan could not have been raised at the rate offered, viz., 5*l.* 12*s.* 6*d.* per cent., per annum, except under the special circumstances of the appeal to the patriotism of the country. From the very first the undertaking was a source of loss to the subscribers, as far as market value was concerned. For a few days the scrip bore 10*s.* premium; it then fell to a discount of 4—5 per cent., and that discount became no less than 15½ per cent. in March, 1797.

No combination of adverse influences, however, could extinguish the spirit of the nation; and it remains on abiding record as one of the most striking manifestations of the indomitable will of the people of this country, that in the very midst of the threatening cloud of discouragements which pressed upon them on all sides at the close of the fourth year of the war, they responded to the call of the Government for aid, and in the course of fifteen hours subscribed 18 millions to a loan which stood almost then at a discount in the market.

I again resort to the Annual Register for a contemporary description of the enthusiastic manner in which the public responded to the appeal: "Monday, 5th December, 1796.—The following mode of "raising the loan of 18 millions was proposed, and recommended "by the Bank Directors, on Wednesday last. One million was "subscribed by the Bank in their corporate capacity, and 400,000*l.* "by the Directors individually; and before the close of the books on "the first day (Thursday, 2nd December), 5,000,000*l.* were subscribed "by different merchants and others. At ten o'clock this morning. "(Monday, 5th December) the parlour doors of the Bank were "opened before which time the lobby was crowded. Numbers could "not get near the books at all, while others, to testify their zeal, "called to the persons at the books, then signing, to put down their "names for them as they were fearful of being shut out. At about "twenty minutes past eleven the subscription was declared to be "completely full, and hundreds in the room were reluctantly obliged "to go away. By the post innumerable orders came from the country "for subscriptions to be put down, scarcely one of which could be "executed; and long after the subscription list was closed persons "continued coming and were obliged to depart disappointed. It is

"a curious fact, and well worth stating, that the subscription was completely filled in fifteen hours and twenty minutes, viz., two hours on Thursday, six on Friday, six on Saturday, and one ditto and twenty minutes on Monday. The Duke of Bridgewater actually tendered a draft at sight on his banker for the 100,000*l.* which he subscribed to the new loan, which could not of course be accepted "as the Act is not yet passed."

The losses to the holders of Scrip in the loan raised in this manner, and as we have seen on terms apparently so favourable to the lenders, became so great and notorious, that on the 31st May, 1797, Mr. Pitt proposed to Parliament to afford them relief to the extent of adding 7*s.* 6*d.* Long Annuity to the terms already granted, an addition which would have raised the immediate rate of interest to 6*l.* per cent. per annum.

In urging this proposition, Mr. Pitt said that the subscribers to the Loan "were to be considered as persons who came forward to aid the public service without personal advantage, *for there was no chance in their favour at the time*; they must have viewed it as a transaction in which they were likely to lose rather than to gain, and the burthen of that loan was considerably less than it must have been had they not come forward in the way they had done. *The loan was 4 per cent. discount before the payment of the deposit; the discount afterwards rose to 7, 8; and was now at 14 per cent.* The subscribers had, however, made good their several payments, a circumstance which would not the less dispose the House to assist them." Mr. Pitt's motion was carried by 40 to 26; but when the report was brought up next day (1st June), the division was 36 to 35—and the proposition was then dropped.

I may add, that the short Peace of Amiens enabled some of the holders of the stock of the Loyalty Loan to claim repayment under the terms of the Act, and some little embarrassment to the Chancellor of the Exchequer was created in consequence.

The last of the Eight Cases selected for particular reference (see page 10, ante) is the Loan of 14,500,000*l.* raised in April, 1797, at a rate of interest equal to 6*l.* 7*s.* per cent. per annum,—the highest rate paid for any of the loans which have been raised in this country since the American war.

The funds selected were 3 per cent. Consols, 3 per cent. Reduced, 4 per cents., and a Long Annuity of 6*s.*; and after the statements already made on the subject of the difficulties of the country at the period of this loan I may be allowed perhaps to say in general terms, and without adducing details, that onerous as the terms were, they were the best that could be obtained by exciting a competition among responsible parties.

XI.—*General Conclusions, justified by the foregoing details.—Those conclusions are in favour of Mr. Pitt.*

It will probably be considered that the details I have now concluded with reference to Eight of the Loans raised by Mr. Pitt, afford very strong evidence in support of the Three First of the Five propositions which I began by stating.

These three propositions were in substance, (1) That, from the

practical difficulties of the time, the amounts required by way of loan could not have been obtained at the periods, and in the large sums required, if the principle of borrowing at Par had been rigidly enforced: (2.) That even if the principle of borrowing only in Five Per Cents. had been enforced the difficulties would have been almost insurmountable, and the terms in all cases exceedingly more onerous than the rates actually given: and (3.) That there is no reason whatever for supposing that the contracts entered into were not the best that could be obtained by a resort, as far as possible, to the check of competition; and that, in point of fact, repeated attempts were made by Mr. Pitt to negotiate the loans in stocks bearing a higher rate than three per cent.

To the remaining Two of the Five propositions, namely, (4.) That the situation of the country rendered it necessary to keep down the annual burdens as far as possible: and (5.) That particularly during the first six years of the war (1793-98), as large a revenue was raised within the year as could be obtained under the exigencies of the time,—I will presently address myself.

I have said that practically it would have been impossible to have raised the loans under consideration at Par; and although that phrase will convey a sufficiently distinct meaning to persons familiar with these inquiries, it may be well to introduce here a definition, and it shall be in the words of one of the most distinguished supporters of the Par Method.

Borrowing at par then means “to restrict the stock created in the lenders’ favour to the amount of the loan, and to make the required bonus (or inducement to persons to subscribe) by raising the rate of interest” (McCulloch’s *Funding System*, p. 435):—Or, to give an illustration,—to have as many different kinds of stocks as there have been different rates of interest paid on different loans:—As for instance the $4\frac{1}{2}$ millions raised in March, 1793, would have been a special 4*l.* 3*s.* 4*d.* per cent. Stock;—the 11 Millions of February, 1794, would have been a 4*l.* 11*s.* 5*d.* stock;—the 18 millions of February, 1795, a 4*l.* 16*s.* 2*d.* stock,—and so on through the fifty funding operations of the last war. It is happily not my task to defend a theory which assumes the contemporaneous existence of half a century of different kinds of public securities; but if borrowing at Par has any definite meaning at all, such would have been its practical effects if enforced from 1793 to 1815.

A medium course between borrowing at par—that is, always at the market rate of interest at the time—and borrowing in 3 per cent. stock,—would have been to borrow in a High Rate Stock, such as the Five per cents. As regards most of the loans a Five per cent. stock might have been employed, but at the expense only of a considerably higher rate of interest than was paid in the Low Rate Stock of 3 per cent.; and for all the purposes of trying the question of low and high rate methods of funding, during the period 1793-1801, it seems to me that we may safely disregard the Par hypothesis, as being too far removed from any possibility of adoption, or even endurance, and confine the question to the respective merits of the THREE and FIVE per cent. Methods.

XII.—*The Difficulties which prevented large taxation, 1793-1798. Rapid succession of Bad Harvests.—Great efforts made.*

Let us now return to the two last of the five propositions.

It has been said that a much larger amount of taxes ought to have been imposed immediately on the outbreak of the War; and, therefore the necessity for loans so large prevented by considerable additions to the ordinary revenue. I candidly confess that, when I began this inquiry, I held, not perhaps a strong but a moderately distinct opinion, in favour of this view; and I must also confess that an investigation into the facts has compelled me to relinquish that opinion altogether.

This is not the proper occasion on which to go at length into so large and general a topic. At present it is a topic which occurs in a form collateral only to the main purpose of this Paper, and therefore I propose to do no more than refer to it incidentally.

The primary consideration in viewing such a question is the character of the Seasons, and the price of Corn; and the following statement, compiled from Mr. Tooke's History, will show the rapid succession of Unfavourable Harvests between 1792 and 1800.

Harvest of	General Character of Crop.	Average Price of Wheat in England per Winch. (8 bush.) Qr. during Harvest Year of 1st Sept. to 1st Sept.
		£ s. d.
1791	Very abundant.	
1792	Extremely wet summer. <i>Wheat crop very inferior.</i>	
1793	Summer very dry. Winter corn moderately good, but <i>spring corn generally deficient.</i>	'93-'94 — 2 10 2
1794	Summer hot and forward. <i>Great damage occasioned by drought.</i>	'94-'95 — 3 5 5
1795	Winter of 1794-95 very severe. Spring and summer of 1795 cold and stormy. <i>Produce very deficient.</i>	'95-'96 — 4 4 .
1796	Winter of 1795-96 very mild. Harvest of 1796 abundant and well secured.	'96-'97 — 2 14 4
1797	Season on the whole unfavourable, and <i>produce deficient.</i>	'97-'98 — 2 13 6
1798	Crops moderately productive and secured in good order.	'98-'99 — 2 15 3
1799	Winter of 1798-99 extremely rigorous. Spring and summer of 1799 cold and ungenial. <i>Produce exceedingly deficient</i>	'99-'00 — 5 6 .
1800	Spring very wet. Summer hot. Harvest weather at first favourable; but as the general result more than half the crop deficient or severely damaged.	'00-'01 — 6 11 .

We have here Six Deficient Harvests in the first nine years of War, viz., 1792, '93, '94, '95, '99 and 1800, and in Appendix H further details are given of the sacrifices which these deficient years imposed upon the country.

The dearth was perhaps the more severely felt, because it came upon the country as something of which there had been no recent example. To the end of 1790 this country had required hardly any supplies of corn from abroad, and had had the benefit of an extremely low average price. For the twelve years to the end of 1792 the average annual price was not more than 2*l.* 8*s.* per quarter for wheat;—for the first three years of the War (1793-4-5) the price was 3*l.* 7*s.*, or forty per cent. higher; for the next five years (1796-1801) the price was 4*l.*, or seventy per cent. higher. There was a constant drain also for the cost of foreign supplies of corn. For the years 1794-5 the Import Cost of Foreign Corn was Two Millions and a Half sterling; for the five years 1796-1800 it was Three Millions and a Quarter sterling, or not far short of 10 per cent. of the total real value of all the Imports. Not only were the ports thrown completely open, but large bounties were paid on cargoes of corn imported. In the fourth year of the war (1796) the amount paid for bounties was 574,000*l.*; in 1801 it was 1,420,000*l.* It was the intense distress, arising out of the scarcity, which mainly led Mr. Pitt to propose early in 1796 those extensive modifications of the Poor Law which during recent years have been so largely discussed.

We have already seen that the War opened amidst severe commercial distress, and during the first three or four years of the struggle the effect of the utterly disorganized state of Europe operated to the great depression of the trade of this country. When our Naval victories had cleared the seas of almost every hostile flag; and when the colonial conquests had given us a monopoly almost of the trade of the world; that monopoly, aided by the rapid extensions of our manufacturing industry, drew into this country no small part of the wealth of Europe; but we did not possess these advantages till after 1798, and during the First Six Years of the conflict the Ministry had to contend with an accumulation of difficulties, such as, I believe in my conscience, had never been encountered before, and such as assuredly, has not been encountered since.

Famine, disaster in the field, treacherous allies, the failure of two attempts to obtain peace from an arrogant enemy, discontent and rebellion in Ireland, a paralyzed commerce, a failing revenue and increasing burdens; a tendency if not to sedition at least to the most violent forms of political agitation at home, and a Parliamentary Opposition—distinguished above all others in the history of party by the ability, the courage and the perseverance of its leaders—vehemently antagonistic to the war and to the Minister who carried it on. These were the difficulties under which Mr. Pitt persevered; and now, at the distance of sixty years, when the embers of the fierce opposition he had to meet have long since died out, we can all afford to admire the brave and hopeful spirit with which he, and the great majority of the nation who supported him, met the hardships that pressed upon them. We can also well afford to admire the gallantry of the small band, who, thinking too favourably of the principles and power of France, fought for six years a hopeless battle against the policy of the War.

But it is by no means true that vigorous efforts were not made to increase the taxes even from the first.

In Appendix K will be found a detail of the Budgets proposed by Mr. Pitt from 1793 to 1801, and it is a document to be read with interest and profit. The New Taxes proposed at the end of the first twelvemonth (5th February, 1794) amounted to no less than 913,000*l.*; the following year they were 1,666,000*l.*; in 1796 they were 1,592,000*l.*; and even in the deep gloom of the December of that year (1796), the minister had confidence enough to propose further new taxes to the amount of 3,436,000*l.* We must remember also that in the early part of 1796 he had been compelled to withdraw his proposed Legacy Duty on Real Estate. In 1798 came the Trebled Assessed Taxes, the Redemption of the Land Tax, the Voluntary Contribution, and other imposts and plans amounting to 8,263,000*l.*;* and, at length, in 1799 that great and final measure, long in contemplation but not possible at an earlier period, the Income Tax (of 10 per cent.), estimated to produce 7,500,000*l.*

XIII.—*Great Influence produced by false calculations of the weakness of the Enemy, and by false reliance on the Sinking Fund.—Testimony of Mr. Burke and Lord Grenville.*

There were two circumstances, however, which during the earlier years affected materially the Financial Plans of Mr. Pitt, as regarded the War Expenditure; and one of those circumstances continued to affect the policy pursued with reference to loans even beyond the termination of the contest in 1815.

The first of these circumstances was (1.), The general opinion entertained when the War broke out that it was merely a casual interruption of peace, and would soon terminate; and this opinion was very confidently supported on the two grounds, first, of the utter inability of a chaotic government, such as existed in France, to carry on an external war with vigour; and, secondly, of the rapidly approaching exhaustion in France of every species of financial credit and stability. (2.) The second circumstance was the delusive belief in the efficacy of the Sinking Fund to save this country from the perils of an accumulating Debt.

I cannot go into much detail on either of these topics, and I must content myself by the general allegation, supporting it by only a single extract from Mr. Pitt's speech, on the Address of 30th December, 1794, and confining myself to a few sentences of the passage in which he expressed his confident belief in the approaching exhaustion of the finances of the enemy: "I have even," he said, "the authority of Tallien for saying that the French cannot maintain their Assignats without contracting their expences and diminishing their forces; and it should be recollected that this is their only resource. Is it then too much to say, that their resources are nearly at an end? It is this unlimited power, which the French

* It was, if I remember rightly, with reference to the Treble Assessed Taxes, that one of the most vigorous and popular of the opposition songs was composed. The following stanza was exceedingly popular:—

What were the taxes last year?
A trifle that we can remember;
Enough to make a man swear
From January until December.

“ Convention have assumed, to purchase or to seize all property as suited their purposes, that accounts for the stupendous scale of operations which they have been enabled to pursue. This circumstance completely solves the phenomenon, which otherwise would appear so inexplicable and is adequate to all those miraculous efforts which have attended the progress of the French Revolution, and which seemed to baffle all reasoning, as much as they have exceeded all human expectation. In all these circumstances, we have then sufficient inducements to carry on the war, if not with the certainty of faith, yet at least with the confidence of expectation.”*

These views were by no means confined to Mr. Pitt, they were entertained by most well informed persons in the early part of the War; and, in the opening pages of that last, and in many respects, most marvellous of the writings of Mr. Burke, the *Letters on a Regicide Peace*, published towards the end of 1796, we may read a statement—in language such as Mr. Burke only could command—of the state of public opinion, with reference to France after the abolition of the monarchy in August, 1792: “Deprived,” the passage in the First Letter runs, “of the Old Government, deprived in a manner of all Government, France fallen as a monarchy, to most speculators appeared more likely to be an object of pity or insult, according to the disposition of the circumjacent powers, than to be the scourge and terror of them all; but out of the tomb of the murdered monarchy in France has arisen a vast, tremendous, unformed spectre, in a far more terrific guise than any which ever yet overpowered the imagination and subdued the fortitude of man. Going straight forward to its end, unappalled by peril, unchecked by remorse, despising all common maxims, and all common means, that hideous phantom overpowered those who could not believe it was possible that France could at all exist—except on the principles which habit rather than nature had persuaded them were necessary to their own particular welfare, and their own ordinary modes of action.—The Republic of Regicide with an annihilated revenue, with defaced manufactures, with a ruined commerce, with an uncultivated and half depopulated country, with a discontented, distressed, enslaved, and famished people, passing with a rapid, eccentric, and incalculable course from the wildest anarchy to the sternest despotism, has actually conquered the finest parts of Europe; has distressed, disunited, and broken to pieces all the rest; and so subdued the minds of the rulers in every nation, that hardly any resource presents itself to them except that of entitling themselves to a contemptuous mercy by a display of their imbecility and meanness.—At first the French force was too much despised, now it is too much dreaded. Inconsiderate courage has given way to irrational fear.”

There was then the hallucination of the Sinking Fund—and surely the history of that device affords materials for one of the most curious

* Tom Paine’s tract, “*The Decline and Fall of the English System of Finance*,” dated at Paris, 8th April, 1796, was intended as an answer to Mr. Pitt’s frequent references to the desperate situation of the credit of the republic. The motto of the pamphlet, “*On the verge, nay, in the gulph of bankruptcy*,” was taken from one of Mr. Pitt’s speeches.

chapters in the chequered narrative which traces the progress of the human mind in freeing itself from gross and mischievous errors. Eastern legends have hardly ventured upon any more startling paradox than the enthusiasm of all the leading minds of a commercial nation in support of a plan arithmetically absurd, and bringing with it no immediate advantage, but on the contrary, the continuance of present imposts exceedingly hard to be borne. From the date, however, of the Sinking Fund Act of 1786 to the final adoption of Dr. Hamilton's views by Parliament in 1828, the scheme revived by Dr. Price continued in the punctual discharge of its useless functions—and during the first half of that period the most implicit reliance was placed in the power of the contrivance to mitigate the evils of accumulating debt. The diffusion of this financial faith pervaded all parties. It was held as firmly on the Opposition as on the Ministerial side of both Houses. It pervaded all the pamphleteers; and we search in vain through the fierce essays of Mr. Morgan and Lord Lauderdale for any expression of doubt as to the solemn duty of upholding the Sinking Fund. In truth, the support of that institution by Mr. Pitt was almost the solitary merit which the Opposition admitted him to possess.

It is fortunate, however, that we are able to refer on this subject to the testimony of one of the most distinguished of the statesmen who contributed to the original adoption of Price's Scheme, and who also lived to contribute, with no backward zeal, to the correction of the error. In the admirable essay* published by Lord Grenville in 1828, there is the following passage:—

“But in the days of Price the principles of 1716 regained the public favour, and in 1786 they were re-established by almost universal acclamation as the main bulwark of our finance, and the unfailing sources of incalculable benefit. To this change the circumstances of the moment powerfully contributed. At the close of the American War the loss of our long-cherished colonies, to whose possession such false notions of advantage had been attached, the magnitude of the debt incurred in that fruitless contest, and the deficiency of the revenue created to defray its charge, had thrown over our financial prospects a cloud of distrust and apprehension scarcely to be imagined but by those who witnessed it. Nor were there wanting strong grounds for these impressions, exaggerated as they were. The real pressure of our burdens was at that time exceedingly severe; more grievous, perhaps, in proportion to our wealth, than in any succeeding period of our greatest difficulties. The nation gave way therefore to an almost universal panic on this subject. The ordinary course of our finance was thought no longer adequate to our necessities; resort must be had for safety, it was said, to some new, or at least to some long untried, expedient.

“Under these circumstances it was that the project of establishing a new Sinking Fund, which should accumulate uninterruptedly at compound interest, through every vicissitude of peace and war, and which on that assumption would be demonstrably capable of

* “*Essay on the Supposed Advantages of a Sinking Fund*,” by Lord Grenville, 1828. The pamphlet is dated Dropmore, 15th March, 1828, and was published in a somewhat incomplete state in order to be ready early in the session of that year.

“ being carried to any assignable amount, captivated all imaginations. The country grasped, almost without inquiry, at promises of relief so specious and so ample, adopting with unbounded confidence a remedy proclaimed on no light authority to be of efficacy nothing less than omnipotent.

“ It can be no reproach to any individual to have partaken largely in these feelings—no reproach, I trust, to any public man to have co-operated with earnestness and zeal both in preparing and supporting a measure so consonant to the wishes of his country; and least of all can censure be attached, on this account, to that able and excellent Statesman who framed and carried through the Act of 1786. Allowing for the impressions at that time so generally prevalent, there is, on the contrary, much of his conduct on that occasion for which he is justly entitled to the highest praise. With an ardent and generous spirit, devoting all his energies to the national prosperity, he risked, and in no small degree surrendered, his highly valued popularity to the necessity of a large additional taxation, which that measure compelled him to establish and maintain. This was no light sacrifice, nor did he feel it such; but he anticipated, in return, with unspeakable delight, the full tide of wealth, which in some distant, but auspicious moment, the results of these disinterested exertions were to pour upon his country. What he so ardently wished he willingly believed. *His persuasion of the great advantages of a Sinking Fund, to be continued in War, and to be upheld by borrowing in all periods of deficiency, was therefore deeply rooted, not in his judgment only but in his feelings.* To these opinions he clung with unvarying fondness; and his provisions for giving effect to them, although, on more than one occasion widely departed from by his successors, still form, even in the present moment, the leading features of the system, in so far as it can still be said to exist at all.”

XIV.—*Statement of the Question as regards the Comparative Eligibility of contracting Loans in Low Rate or High Rate Funds.*

I have now reached the closing division of the inquiry.—I have endeavoured to adduce, at least some reasons for believing that the great and perplexing difficulties of the period from 1793 to 1801 compelled the Government to frame its financial measures very much according to the current circumstances of the time; and that, as regards the Loans raised by Mr. Pitt, they were raised with the advantage of every precaution on his part to accept such terms only as arose in each case out of a competition the most extensive and *bonâ fide* which it was possible to excite.

The general and conclusive answer therefore to those persons who exclaim against the onerous burdens entailed by Mr. Pitt's Loans is exceedingly short, and consists in a simple statement of fact, namely,—that the Loans were required for purposes of national defence, in a period of great distress and peril, and that, with every advantage of an open market, the money could only be obtained at the prices given.—Whether or not therefore the burden arising out of these transactions be or be not onerous, is a consideration wholly beside the question. The bargain was fairly performed on the side of the Lender—

and, unless the doctrines of repudiation are to be introduced, it must be as fairly performed on the side of the Borrower.

And here the defence of the Funding Operations of the first French War might cease, as being complete on the first and paramount ground of the particular facts. The Loans were raised in the openest manner, and on the best terms that could be obtained,—and there is an end of the whole case.

But the defence admits of being carried further than this.—The impugners of Mr. Pitt's Loans are willing to admit—some of them entirely, and others only as an assumption,—that while there was no extravagance in the manner of settling the contracts, there was a great error of judgment in selecting as the fund to be employed a Three per cent. or Low Rate Stock instead of a High Rate Stock—meaning by High Rate Stock either Five Per Cents. or funding at Par. Now, as I have already said, it appears to me that while the Par Method may be exceedingly ingenious as a hypothesis, it is too far removed from possible reality to admit of discussion; and further, that the question can only be fairly tried as between *Three* and *Five* per cent. stock.

I am quite content to discuss it on this ground, and I think it may be made to appear, by a fair and reasonable line of argument, that in spite of all the manifold statements to the contrary, the loans raised by Mr. Pitt in the Low Rate Stocks, have *not* entailed upon the country the heavy losses with which they have been so constantly charged.

No small part of the misapprehension which prevails in the arguments on these subjects is traceable to what appears to be a very singular oversight, as regards the real nature of the Market, in which the Public Funds are the principal commodity dealt in; and as to the real nature of the majority of the great operations which are carried on in that Market.

We are frequently reminded, and no one disputes the fact, that the National Debt consists not of Capital but of Perpetual Annuities. The State has bound itself to pay certain half yearly annuities, and has deprived the holders of these annuities of any right to call for their redemption; hence, it is argued, and on abstract grounds very justly, that the only point which the public and the stock jobbers have to consider is the precise arithmetical relation between the value of different amounts of annuity;—and it is said that any marked preference of relative price borne by an Annuity of 3 over one of 5 per cent. is a departure from obvious rules, so gross as to be almost ridiculous. From these premises follows, quite logically, the conclusion that the State must of necessity be a large loser when it is so misguided as to borrow in 3 per cent. instead of 5 per cent stock;—inasmuch as while the 5 per cent do, the 3 per cent. do not, admit of future reduction. And this liability to the reduction of the annuity is the only qualifying circumstance which the doctrine admits. It is allowed “That all the funds are redeemable at par, and that if the 3 per cents. rose to 75, the 4 per cents. should rise to 100, and the “5 per cents. to 125; and, therefore, the actual price of the 4's or “5's could never much exceed par. So soon as the 5 per cents. rise “above par, the financier will offer payment, and by doing so induce “the creditors to submit to a reduction of interest. *The holders of*

"a 3 or 5 per cent. fund have thus a prospect of gain by the rise of value, in which the 5 per cent. stockholders do not participate; and in like manner when the 3 per cents. rise above 75, the holders of that stock have a further gain, in which the 4 per cent. stockholders do not participate. In consequence of these expectations, the price of 4 per cents. is higher compared with that of the 5 per cents.; and the price of the 3 per cents. higher than that of either of the others; than the proportion of the rates of interest;—and loans are transacted in 3 per cents. on easier terms. The lender expects to gain by the rise of the stock, and what he gains the public loses at repayment or redemption."*

These are the clear words of Dr. Hamilton, and it is not a little curious, that while his strong and lucid mind detected all the plausible fallacies of the Sinking Fund, it should have overlooked, not merely the obvious, but the constantly practical operation of those differences between Three and Five per cent. stock, and which he has so distinctly stated in the paragraph quoted.

XV.—*The Strong Practical Considerations in favour of preferring Consols, or a Low Rate Fund.*

In considering the abstract doctrine just described, we are met at the outset with the fact that the great mass of the business on the Stock Exchange consists, not of the purchases and sales of *bonâ fide* investors, but of the continued operations of speculators in the rise and fall of prices during what is called the 'Account.'

Whether for good or evil ends, but certainly on the whole for good ends, the Stock Exchange is a vast market where men employ masses of capital in dealing backwards and forwards in the different Stocks; and, like all other great markets, custom, convenience, and self-interest have gradually set up certain conditions which govern in a great measure the movements of the whole body of operators. One of the best established of these conditions is, that any new kind of stock, attempted to be introduced with success, must be *marketable* at all times and to any extent. It must be of a nature which every body understands—it must be free from new conditions—and it must be also free from future contingencies in the estimation of which hardly two persons will agree. Now, it is the fact, that for the last hundred years the 3 per cent. Consols have been the kind of fund which, beyond all others, has fulfilled these conditions of eligibility in the most pre-eminent degree. From the circumstance of the amount of the funded capital of this Stock always greatly exceeding in magnitude the funded capital of any other kind of stock, Consols have admitted of speculative operations being carried on in them far beyond anything that could be prudently undertaken in any other Fund; and hence it has followed, that from the nature, and habit, and constitution of the Stock Market, 3 per cent. Consols have relatively been worth more to the dealers in that market than any other kind of stock; and the higher relative price so existing, however ridiculous it may appear to abstract reasoners, is a price perfectly legitimate on all grounds of dealing. And one of the main reasons of the preference for Consols, after allowing for the mag-

* "Hamilton's Inquiry," 3rd edition, 1818, p. 250.

nitude of the fund, *has always been their exemption from embarrassing hazards of future redemption*—particularly as they have the great safeguard of a year's notice being necessary before the holders can be compelled to accept payment at par.

It has been alleged in the course of discussions which have taken place on these subjects, that an obligation on the State to redeem only at *Par* has been too lightly conceded to the contractors of loans, and that, by the exercise of a little more care and skill, terms of redemption much more in favour of the public could have been secured.

As far as I am aware, however, these are allegations wholly of a theoretical nature, and resting on no solid ground of experiment or experience; but, in point of fact, attempts have been made to raise loans in Consols, and other kinds of stock, with an option to redeem at some price *under par*; and we have the distinct testimony of no less a personage than Mr. Huskisson, that when an attempt of this nature was made by himself, (while in office as Secretary of the Treasury from 1806 to 1808, under the Duke of Portland's government,) it was found to be totally impracticable. No responsible set of persons would *make any bid whatever* under such conditions. Mr. Huskisson stated the fact as follows, in his speech of the 3rd March, 1813, on the state of the Finances: "*The price of the public stocks does not depend upon the value of the dry annuity. It is a joint consideration of this annuity and of the prospect of an increase in the value of the nominal capital, that operates upon the mind of the purchaser. I had a pretty strong proof of this when I myself was in office. From a wish to guard the public against the great loss of redeeming, perhaps at par, 3 per cents., which might have been borrowed at 60, I proposed to the bidders for the loan to make the 3 per cents. redeemable at 80,—and they would not bid at all upon the proposal.*" At the time when Mr. Huskisson offered this limit of 80, the 3 per cents. were under 60, and a margin of 33 per cent. upon a price of 60 was no small allowance, and yet the contractors would not listen to the suggestion;—and for reasons perfectly sufficient, on grounds both of individual interest, on their part, and of general advantage as regards the public; for it is certain that the higher value borne by Consols, in consequence of the absence of embarrassing conditions, has been a source of great convenience, and of no small profit, to the State in its operations of finance.

The fact is, therefore, that from the operation of the two causes which have been named, viz. (1.) of the pre-eminent eligibility of Consols as a Stock Exchange commodity, and (2.) of the extreme non-eligibility of High-Rate Funds as a Stock Exchange commodity, the actual difference of price between Consols and Five per cents., as the media of New Loans, has been generally so great as to make it prudent and profitable to adopt the Low-Rate method.—And specifically this was the actual fact during the first French War.

XVI. — *Comparative Results of the Two Methods as applied to the Ten Largest Loans, 1793-1801.*

Nor is it true, as Dr. Hamilton implies, that what the holder of 3 per cent. stock gained by a rise in its price, the public wholly lost.

For there were the accumulations of the Difference of the Smaller

annual charge, arising out of the smaller interest paid on loans raised in Consols, as compared with the Larger annual charge, which must have been paid on the same loans if they had been raised in Five per cents.

And we shall find in the accumulations of this Difference of Annual Charge almost a complete set-off against the excess of the amount of capital in created Consols, beyond the amount of money actually obtained.

In the following Table I have collected the Ten Largest Loans raised between 1793 and 1807. In the second column is inserted the rate of interest actually paid in low-rate stocks; in the fourth column, the rate at which, from a careful consideration of the circumstances of each case, I am led to believe must have been paid if the money had been raised in Five per cents.: and then working out, as shown in detail in Appendix N, the Difference of annual charge thence arising, the result as *For* or *Against* the Five per cent. method, as shown in the fifth and sixth columns.

LOANS, 1793-1801.—*Summary of COMPARATIVE RESULTS of the TEN LARGEST LOANS as actually raised in Low Rate Stocks, and as they would have been raised in Five per Cents.**

1.		2.	3.	4.	5.		6.
Actually Raised.					Result For and Against FIVE per Cent. method as on 1st Jan., 1826.		
Money.	At Average Rate.		LOANS AND DATES.	Estimated Average Rate if raised in FIVE PER CENTS.	Against.	For.	
£	£ s. d.			£ s.	Stock.	Stock.	£
4,500*	4 3 4		I. LOAN, 1793 (Mar. 11th)	5 2	4,406	....	....
11,000	4 11 5		II. „ 1794 (Feb. 5th)	5 5	2,560	....	....
18,000	4 16 2		IV. „ 1795 (Feb. 23rd)	5 10	6,962	....	....
18,000	4 13 6		VI. „ „ (Dec. 7th)	5 7	3,792	....	....
7,500	4 12 6		VIII. „ 1796 (May)	5 10	3,696	....	....
13,029	5 7 11		X. NAVY BILLS, 1796 (Nov.)	6 5	4,900	....	....
14,500	6 7		XII. LOAN, 1797 (April 26th)	7 2	1,290	....	....
17,000	6 4 11		XIV. „ 1798 (May 1st)	7 2	1,584	....	....
15,500	5 5		XVI. „ 1799 (June 7th)	5 18	....	1,385	....
20,500	4 14 2		XVII. „ 1800 (Mar. 10th)	5 7	....	549	....
139,529	5 3 3			5 18	29,190	1,934	
					27,256		

* The 000's at the unit end of the larger amounts in Table are omitted. Thus—4,500 is 4,500,000.—As stated in the next page, the calculations, of which this Table is the summary, have the concurrence of Mr. Hendriks, who, as Actuary of the Globe Insurance, is the colleague of myself in my capacity of Secretary to that Company.

This Statement gives a result of 27,256,000*l.* in *favour* of the Low Rate Method at the commuted date of 1 January, 1826, taking 6 per cent. as the rate of assumed interest, and making due allowance for the operation of the amount of Long Annuity, involved in the several cases. The details in Appendix N will show fully the mode of arriving at these results, and as they have the concurrence of Mr. Hendriks, whose skill and soundness as an Actuary requires no praise of mine, they may be accepted with confidence. Views may differ as to some elements of the calculation, and for the reconciliation of such differences no conclusive test can be laid down. For myself, I have endeavoured to exhibit the case fairly, and I have a confident persuasion that if the statement contains errors of exaggeration on one side, it contains errors of an opposite kind on the other.

These explanations being given, we may now introduce the following Summary of the comparative results of the Low Rate and High Rate methods, as connected with the Ten Largest Loans raised by Mr. Pitt:—

Statement of the COMPARATIVE RESULTS of the TEN LARGEST LOANS, 1793-1801, as actually raised in LOW RATE Stocks, and as estimated in FIVE per Cent. Stocks.

I.—As AT DATES WHEN raised, 1793-1801.

<i>Five per Cent. Method Estimated.</i>	Elements of Comparison.	LOW RATE, or ACTUAL METHOD.
<i>£</i>		<i>£</i>
139,529,000	Sum Actually raised in Money	139,529,000
164,496,000	Funded Capital (or Stock) created	224,082,000
118	Quantity of Stock given for each 100 <i>l.</i> Money	160 5 0
5 18 0	{ Average rate of interest paid to lender, including, as regards the <i>Low Rate</i> Stock, the Long An- nuity granted	5 3 3
8,222,000	Amount of Annual Interest on Stock Created	6,894,000
....	Long Annuity till 5th January, 1860	312,000
8,222,000		7,206,000

II.—As on 1ST JANUARY, 1826.

<i>Five per Cent. Method Estimated.</i>	Elements of Comparison.	LOW RATE, OR ACTUAL METHOD.
<i>£</i> 164,496,000	Stock in <i>FIVE per cents.</i> assumed as Originally created.	<i>£</i>
94,293,000	{ Add,—for the accumulation of the Difference of 1,016,000 <i>l.</i> per annum between the <i>larger</i> sum of Annual Interest payable on <i>FIVES</i> , and the <i>smaller</i> sum payable on <i>Low RATE</i> Stocks.	
258,789,000	{ Total amount of Debt as on 1st January, 1826, on <i>FIVE</i> per cent. method.	
	—————	
	Stock at <i>Low Rates</i> (actually), originally created	224,082,000
	Add, for Funded Capital, equivalent to the charge of the Long Annuity of 312,000 <i>l.</i> as on 1st January, 1826	7,446,000
		231,528,000
	Surplus in <i>Favour</i> of the <i>LOW RATE</i> method	27,261,000
258,789,000		258,789,000

I am quite aware that, in many quarters, a strong opinion is entertained to the effect, that even from the commencement of the War in 1793, a very considerable portion of the Loans could have been raised, not only in Five per cents., but if it had been so desired even in Terminable Annuities; and that funding operations conducted in Terminable Annuities, would have involved only a slight addition to the terms actually paid in 3 per cents.

Upon mere financial grounds a public loan contracted in Terminable Annuities is, perhaps for the State, the form of borrowing the most desirable, for at the lapse of the term the annual burden of the debt ceases. But connected with the plan of Terminable Annuities, there are other considerations of a higher and more general nature than those of mere finance; and when the whole question has to be discussed, it will appear, I think, that while Terminable Annuities may be employed with advantage as one of several forms of funding, it would be exceedingly unwise to resort to them as the sole, or even as the principal method.

As concerns the Loans of 1793-1801, it will be evident from the facts contained in different parts of the Appendix, that the depreciation of Long Annuities, as compared with Consols, was always so great as to render it practically impossible to have selected Long Annuities as the predominant stock in which to seek for eligible tenders. In May, 1798, for example, Long Annuities fell to a price of 13 years' purchase, yielding a rate of 7*l.* 12*s.* per cent., while Consols were yielding only 6*l.* 5*s.*; and while, further, Long Annuities themselves had been quoted at 21½, in March, 1793, yielding 4*l.* 10*s.*

against a then contemporary price of Consols which yielded 3*l.* 18*s.* And generally we are fully justified by the evidence, in concluding that if it was not only unprofitable, but on many occasions absolutely impossible for Mr. Pitt to raise the loan in Five per cents. ; it would have been still more unprofitable, and still further removed from possibility, to have attempted to raise the same sums exclusively or mainly in Long Annuities. I am quite aware that as a matter of mere calculation, nothing is more easy than to show that a Long Annuity is a species of investment as eligible as Consols. Still the practical answer must be that they are commodities not suited to the market, and only to be sold there at a depreciated price.

XVII.—*The same Comparative Results as regards the Loan of 8,000,000*l.* of March, 1847.*

Nor is at all true that the great practical depreciation of High Rate, as compared with Low Rate Stocks was confined to the period of the last War. The causes which led to that depreciation are even in more active existence now than they were then; and I cannot better illustrate this statement than by referring to the terms of the very last Loan raised in this country—the Loan, namely, of 8,000,000*l.*, raised in Consols by Sir Charles Wood, in March, 1847, for the purpose of meeting the extraordinary expenses of the Irish Famine. And we shall find, on examining the terms of that transaction, that notwithstanding the very severe criticisms which were directed at the time against the method actually pursued of borrowing in Consols, the adoption of that course admitted of very ample justification.

The Loan was concluded with Messrs. Barings, and Messrs. Rothschilds on Monday, the 1st March, 1847. On Saturday, the 27th of February, the price of Consols was 90½; and of 3¼ per cents. 92½; and as will be remembered these 3¼'s were the intermediate stage between the 3½'s reduced in 1844, and the ultimate reduction to 3 per cent. in 1854. The 3¼'s, therefore, were the Stock of highest denomination then in the market. The terms of the Loan were 89½ *money* for 100*l.* Consols Stock; or what is the same thing 111¾ Consols Stock for 100*l.* Money; and the rate of interest was 3*l.* 7*s.* Now saying nothing of 5 per cents. as being a stock almost obsolete, let us suppose that Government had been desirous of raising the Eight Millions in a 3½ per cent. stock, so as to have the advantage of reducing the interest at some future time—then we cannot suppose that in a 3½ per cent. fund the biddings would have been higher than 93;—or 107*l.* 10*s.* stock for every 100*l.* money—or 3*l.* 15*s.* 3*d.* per cent. per annum.

Opinions will differ as to the period within which a 3½ per cent. stock could have been reduced to 3 per cent. Assume, however, that that period would have been fifteen years. Then as shewn in detail in Appendix O, the accumulation during fifteen years of the annual saving (of 32,916*l.* per annum) of interest in favour of the Consols-Method, would have amounted to 434,000*l.*, and that large accumulation must be taken into account as a set off against any contingent advantages of borrowing in a Higher rated fund. In adopting the hypothesis of a 3½ Per Cent. Fund instead of Consols, the question is placed in the most favourable form as regards the High Rate Theory. A 3½ per

cent. Stock would be far less exposed to early reduction, than either a 4 or 5 Per Cent. Fund—and hence the Stock Exchange value of the $3\frac{1}{2}$ per cent. Scrip, would be relatively higher than for Scrip of 4 or 5 per cent. It will hardly be contended, however, that a small $3\frac{1}{2}$ per cent. Fund of about Eight Millions would have been a very eligible description of security, after the conclusive reasons assigned by Mr. Gladstone, in 1853, for redeeming the small South Sea Funds,—reasons resting, in no small measure, on the precise ground of the ineligibility of Funds of small extent as objects of investment or fields of operation.

XVIII.—*Mr. Pitt's doctrines relative to raising War Supplies within the Year.*

It was in introducing (on the 24th November, 1797) the Budget for 1798, that Mr. Pitt prominently adverted to the necessity which had arisen for raising a large part of the Supplies within the Year; and he proposed in that Budget New Taxes to the extent of Seven Millions, as a supply in part for a deficiency of Nineteen Millions—raising the remaining twelve millions by loan.

The whole of Mr. Pitt's argument on that occasion is adjusted and balanced with extreme care; and, while he pleaded with irresistible earnestness for the necessity of a large addition to the taxes of the year, he carefully guarded himself against any maintenance of the doctrine that it was politic or just not to obtain part of those supplies by additions to the Debt. "We ought," he said, "to consider how far the efforts we shall exert to preserve the blessings we enjoy will enable us to transmit the inheritance to posterity unencumbered with those burdens which would cripple their vigour—which would prevent them from asserting that rank in the scale of nations which their ancestors so long and so gloriously maintained. It is in this point of view that the subject ought to be considered. *Whatever objections might have been fairly urged against the Funding System in its origin, no man can suppose that after the form and shape which it has given to our financial affairs; after the heavy burdens which it has left behind it; we can now recur to the notion of raising in one year the whole of the supplies which a scale of expense so extensive as ours must require. If such a plan be evidently impracticable, some medium, however, may be found to draw as much advantage from the funding system as it is fit, consistently with a due regard for posterity, to employ; and, at the same time, to obviate the evils with which its excess would be attended. To guard against the accumulation of the funded debt, and to contribute that share to the support of the struggle in which we are engaged, which our ability will permit, without inconvenience to those who are called upon to contribute, appear to me essentially necessary; and the great object of such a practical scheme must be to allot fairly and equally to every class that portion which each ought to bear.*"

The principles laid down in this passage admit of but little extension or modification. At the present time, as in 1797—and more emphatically perhaps than in 1797—the real difficulty in all discussions relating to the manner of raising the Yearly Expenses of the

War is found in these preliminary and delicate problems, which are to define in practical language the "safe medium" between Taxing and Funding, described by Mr. Pitt. We have to find—as had Mr. Pitt—some working scheme which shall raise immediately, by new burdens, as large a sum as the national industry can bear, without injuring or dislocating that nicely-balanced system upon the uninterrupted vigour of which the collection of any Taxes at all, present or future, depends. And we also—as had Mr. Pitt—have to find some practical means of so disposing those New Burdens that they shall raise within the year, "fairly and equally from every class," whatever contributions it may be considered necessary to obtain, not by borrowing on the faith of the future, but by an assessment levied on the present generation.

It is urged upon us by high authorities, and in language embracing every tone of earnestness, that, whether on grounds of duty or of interest, it will be our wisest course to adopt measures the opposite of those which were adopted by Mr. Pitt from 1793 to 1798; and determine therefore that by Taxes, and not by Loans, we will meet nearly all the increased expenditure arising out of the Present War.

So far as Self-Interest is concerned we are told, (1.) That a War expenditure supplied by Loans is an expenditure drawn not from the income, but from the capital of the country; (2.) That imposing therefore no immediate pressure by the imposition of new and heavier taxes, it renders the country indifferent as to the prolongation of War, and careless as to the most economical methods of carrying it on; (3.) That drawn from accumulations of Capital employed productively, instead of being obtained by retrenchments of the current expenditure of individuals, Public Loans raised to supply an exhausted Exchequer are the most direct means of laying the heaviest pressure of the War on the Labouring Classes,—and for the obvious reason that the amounts of Capital which are absorbed as Loans would, if not so absorbed, have been employed in extending and improving the field of productive industry; (4.) and lastly, That striking in this manner at the root of all progress in material prosperity, Loans so obtained, and so applied, are impoverishments and anticipations of the future exceedingly full of peril.

On the ground of Duty and Moral Obligation it is said, (1.) That a principle of equity forbids one generation to contract, for purposes of War, obligations which will descend as heavy burdens to the generations yet to come; and (2.) That for the perils of the Present, nothing beyond the property and persons of the Present can, on grounds of right, be laid under contribution.

To these allegations answers full and sufficient do not appear to be wanting; assuming always that the discussion is to be conducted, not as an abstract problem, the conditions of which may be true perhaps, amidst a more perfect species or in a happier planet, but with distinct and constant reference to the actual condition of this country at the present time.

Adverting to the arguments, as far as possible, in their order, it may be said:—

That, in the first place, it is by no means generally true, that, in this country, a public income considerably exceeding in amount the

income of recent years, could be raised by any appliance of taxes, the effect of which would be simply to diminish individual expenditure, leaving former and current accumulations of capital unimpaired. Any large additions to the present taxes—particularly to the present Income Tax of six per cent.—would in a multitude of quarters, and a variety of forms, be paid by encroachments on capital. Those upon whom the tax fell would make a compromise between immediate self-denial and inroads on their accumulated funds. Nor, (2) in the present state of the political institutions, of the education and public opinion of this country, can it be argued, except as a pure suggestion, that the mere circumstance of raising part of the supplies by Loans would in any sensible degree diminish the desire even of any class for an early and solid peace.

Still less (3) is it true, in a general or unqualified sense, that in this country, any such sum as is likely to be required as Loans would sensibly diminish the amount of Capital which can be fully and profitably employed in productive industry, and therefore mainly in the disbursement of wages. So far as actual researches have been carried, by the most competent enquirers, there is good reason to believe that the accumulation of capital in this country is so vast and so rapid as to lead to an annual waste and destruction of capital, the amount of which when expressed in figures sounds almost fabulous; and it is from these overflowings—from this constant current of leakage—that the Loans would be obtained. In what manner a Government Expenditure so supplied would affect the Labouring Classes no writer is more entitled, both by his ability and his independence of judgment, to say, than Mr. Mill; and his words are as follows: “When Government Loans are limited to the “overflowings of the National Capital, or to those accumulations “which would not take place at all unless suffered to overflow; they “occasion no privation to any one at the time, except by the payment “of the interest, and may even be beneficial to the Labouring Class, “during the time of their expenditure, by employing in the direct “purchase of labour, as of soldiers, sailors, &c., funds which might “otherwise have quitted the country altogether.” (*Principles*, B. v. C. 7.)

It may be urged, in addition to this statement of Mr. Mill's, that not only would the Labouring Class receive indirect benefit from the expenditure of Loans raised in the manner described, but that they would be exposed to an inordinate degree of suffering and pressure if the extra supplies were raised by additional Taxes. If these additional Taxes were in the form of new imposts of Customs and Excise, and additions therefore to the existing Indirect sources of Revenue, the Labouring Class would feel the pressure of the War, not merely to the full extent of the Tax, but to the much larger extent to which it is quite well known that heavy Indirect Taxes operate in raising prices to the retail consumer. If they were in the form of new Imposts of a Direct nature,—heavy additions, for example, to the Assessed Taxes, or to the House or Income Tax,—the effect (saying nothing of the gross and inherent injustice of the apportionment of the Income Tax upon the classes who actually pay it) would still fall in a great measure upon that part of the population which depends

on wages and the smaller retail trades; and, in point of fact, one of the most cogent objections to any large increase of immediate burdens consists in the extreme difficulty of so adjusting them that, again to use the words of Mr. Pitt, "the scheme shall allot fairly "and equally to every class that portion which each ought to bear."

In a poor country it might be true that money taken by the State as Loans would be Capital drawn, in the most literal sense, from the exchange and the workshop. With us the time is yet distant when supplies so raised, will do more than reduce the magnitude of the annual investments in foreign mines, and of the annual adventures in speculative foreign funds.

And as regards the last of the (4) allegations the answer seems to be equally clear, and to be little more than a logical consequence of the reply just given to the allegation which precedes it. For if we absorb as public loans only that capital which fails to find profitable employment at home, we do nothing to impoverish or imperil the future by inroads on those accumulated funds which are essential to the progress of the community. On the contrary, our apparent extravagance is the real economy, for we leave untrammelled to the fullest extent the springs and impulses of that vast and intricate organisation, by the strength and compactness of which, much more than by a few millions of debt, the character of the future will be really determined. Our trade, industry, and invention kept free from the friction of taxes, especially at this period of transition, will be a legacy to our successors far more valuable than a public debt diminished by a few millions; and here again we have the benefit of the testimony of Mr. Mill. "It may reasonably," he says, "be taken into consideration, "that in an improving country the necessary expenses of Government "do not increase in the same ratio as capital or population; any burden, therefore, is always less and less felt; and since those extraordinary expenses of Government which are fit to be incurred at all "are mostly beneficial beyond the existing generation, there is no "injustice in making posterity pay a part of the price if the inconvenience would be extreme of defraying the whole of it by the "exertions and sacrifices of the generation which first incurred it."—(*Principles*, B. v., C. 7.)

The objection to Loans, on grounds of Moral Obligation, are not more formidable than those which involve merely economical considerations.

Assuming a War to be necessary and just, (and of that question the recognised and established Government of a country existing at any particular time must be regarded for our present purpose as the legitimate and final judge,) it is hard to see on what solid foundation a difference can be set up between expenditure incurred for improvements and expenditure incurred for defence. For capital invested in the prosecution of public works,—for harbours, drainage, or lines of transit,—by the common voice, the future inhabitants of a country may be fairly charged by the generation which settles the scheme and carries through the work. But is it not plain that the simplest idea of possession involves the idea of defence? Where is the wisdom of improvement if no means are to be taken to preserve the improvements from outward assault? The more closely the plea of exempting

posterity, on grounds of right, from charges bequeathed to them by former generations is examined, the more untenable and deceptive most of its positions will be found. What sufficient answer for example can be given to the fundamental objection that there is nothing in the constitution of the world or in human nature which entitles posterity to claim an inheritance, enriched only by the fruits of wisdom and self-denial, and altogether free from incumbrances heaped up by error and misfortune. The present generation are in no sense mere life-tenants of the inheritance so far as the analogy of a life-tenancy can be made to apply. We are heirs in full and indefeasible enjoyment of the fee of the estate. Doubtless it is incumbent upon us, not less by considerations of morality than upon grounds of enlightened self-interest, to strive conscientiously and patiently to bequeath to our children, freed from as many blemishes as possible, and strengthened, beautified, and expanded, the inheritance we received from our fathers. But in directing our best efforts to the performance of this task, we shall err greatly if we take too confined a view of the full liberty of action and of choice which resides in ourselves; and of the full share of responsibility which on all grounds of right attaches to every future occupant of a country found by him in the possession of a fame, a polity, and an industrial order, the reward of long ages of sacrifice and labour, to which he has contributed nothing.

This is a train of reasoning and reflexion growing naturally and almost inevitably out of a detailed examination of the financial policy of Mr. Pitt during the early years of the last long conflict with France. In a more eminent degree, perhaps, than in any Minister of Finance of the last hundred years, there was combined in Mr. Pitt a clear appreciation of general principles, tempered by a still clearer appreciation of the modifications and corrections of which they stand in need when converted into rules of practice. The experience he had to guide him was far less applicable and extensive than that which is available to ourselves; and in his time we had barely done more than raise the framework of that branch of science which has since accomplished so much in smoothing the task of men entrusted with Government. He had to contend with new and bewildering theories, with sources of danger and failure, happily known to us only by report; and certainly it will not be questioned that the period of his financial administration was beset by internal and external difficulties more numerous and perplexing than have been encountered by any other minister of this country since the settlement of our constitution in its present form. After the lapse of sixty years, we find ourselves, in no insignificant degree, in circumstances similar to those of Mr. Pitt in 1793; and we shall hardly maintain the reputation of our country for practical views if, in dealing with the immediate exigencies of the one period, we fail to give full weight to the lessons which may be drawn from the experience of the other.

[*The Appendix to this Paper will appear in the next No. of this Journal.*]
